

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the October 2, 2002
Investment Committee, Open Session

ITEM NUMBER: 2

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: November 6, 2002

INFORMATION:

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee meeting held in open session October 2, 2002 are submitted as Attachment 1.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
OCTOBER 2, 2002
OPEN SESSION
BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
George Fenimore
Paul Krasnow
Karen Russell
Jay Schenirer
Carolyn Widener
Annette Porini, representing Director of Finance, Tim Gage
Kathleen Connell, State Controller
Richard Whitmore, representing Superintendent of Public Instruction, Delaine Eastin
Philip Angelides, State Treasurer

OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT

Christine Solich
Ted Eliopoulos
Louis Willhoit

STAFF PRESENT

Jack Ehnes, Chief Executive Officer
Christopher Ailman, Chief Investment Officer
Chris Waddell, Chief Counsel
Doug Wills, Staff Counsel
Elleen Okada, Director of Investment Administration and External Relations
Ed Derman, DCEO, External Affairs and Program Development
Michelle Cunningham, Director of Fixed Income
Mike DiRe, Director of Real Estate
Real Desrochers, Director of Alternative Investments
Steven Tong, Director of Internal Equities
Richard Rose, Principal Investment Officer
Jean Kushida Uda, Investment Officer
Mary Ann Avansino, Administrative Assistant

OTHERS PRESENT

Ian Lanoff,
Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance
Marcus Steele, Pension Consulting Alliance

Al Clerc, Pathway Capital Management
Melissa Ma, McKinsey & Company
Anne Habiby, Initiative for a Competitive Inner City
Dorothy Moser, CTA/NEA, Retired
Michael Green, CTA
Pat Geyer, CRTA
Bill Collins, CTA
Beverly Carlson, CTA
Lois Shive, CTA
Ellen Logue, CTA/NEA, Retired
Steve DePue, CTA

- I. **CALL TO ORDER AND ROLL CALL** (Item 1)
A quorum being present, Chairperson Lynes called the open session meeting to order at 10:40 a.m.
- II. **APPROVAL OF MINUTES OF THE JULY 10, 2002 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)
MOTION duly made by Mr. Fenimore, seconded by Ms. Russell and carried to approve the minutes of the July 10, 2002, Investment Committee, Open Session as presented.
- III. **REPORT OF THE SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 3)
Mr. Angelides reported that the Subcommittee discussed the financial reform matrix, proxy voting disclosure, corporate reporting of pension fund earnings, and homeland security issues.

BY CONSENSUS, the report of the Subcommittee on Corporate Governance was accepted.
- IV. **ALTERNATIVE INVESTMENTS – URBAN PRIVATE EQUITY DISCUSSION PANEL** (Item 4)
Mr. Desrochers introduced the panel. Ms. Habiby, representing the Initiative for a Competitive Inner City, discussed business potential, performance, and presented examples of companies located in inner cities. Ms. Ma discussed the CalPERS Study for a California Initiative Strategy. Discussion ensued.
- V. **ALTERNATIVE INVESTMENTS – URBAN/RURAL, AND NEW AND NEXT GENERATION – PORTFOLIO ALLOCATION** (Item 5)
Mr. Ailman, Mr. Desrochers, and Mr. Rose presented the written material on criteria for manager selection, risk management and mitigating factors, and alternative portfolio structures. Discussion ensued.

MOTION duly made by Mr. Whitmore, seconded by Ms. Russell and carried to adopt a resolution directing staff to invest \$350 million in underserved urban and rural markets, and the new and next generation manager asset allocating 40-50% to fund of funds investments and 50-60% to general partner investments.

VI. **MOVE TO CLOSED SESSION**

Chairperson Lynes recessed the meeting at 12:45 p.m. and reconvened into closed session.

VII. **RETURN TO OPEN SESSION**

Chairperson Lynes reconvened the open session at 2:50 p.m.

When the meeting reconvened Ms. Solich represented the State Treasurer, and Mr. Willhoit represented the State Controller.

VIII. **GENERAL - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING JUNE 30, 2002** (Item 7)

Mr. Emkin presented a written performance report for the period ending June 30, 2002.

MOTION duly made by Mr. Schenirer, seconded by Ms. Russell and carried to adopt a resolution to accept the semi-annual performance report submitted by Pension Consulting Alliance as presented.

IX. **REAL ESTATE - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING MARCH 31, 2002** (Item 8)

Ms. Gerardo Lietz and Mr. Steele presented a written performance report for the period ending March 31, 2002.

MOTION duly made by Mr. Schenirer, seconded by Mr. Krasnow and carried to adopt a resolution to accept the semi-annual performance report submitted by Pension Consulting Alliance as presented.

X. **ALTERNATIVE INVESTMENTS - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING MARCH 31, 2002** (Item 9)

Mr. Clerc presented a written performance report for the period ending March 31, 2002.

MOTION duly made by Mr. Schenirer, seconded by Ms. Porini and carried to adopt a resolution to accept the semi-annual performance report submitted by Pathway Capital Management as presented.

XI. **ANNUAL REVIEW OF THE BENCHMARK MODIFICATION POLICY** (Item 10)

Mr. Ailman presented a written annual review of the Benchmark Modification Policy.

MOTION duly made by Mr. Schenirer, seconded by Ms. Porini and carried to adopt a resolution to accept annual report of the Benchmark Modification Policy and to direct staff to continue to exclude the tobacco industry from all CalSTRS public security benchmarks. Mr. Willhoit abstained.

XII. **EXTERNAL EQUITIES – SEMI-ANNUAL EQUITY MANAGER REPORT** (Item 11)

Ms. Okada presented the written report.

BY CONSENSUS, the semi-annual equity manager report was accepted.

- XIII. **ANNUAL AND SEMI-ANNUAL REPORT ON THE CALIFORNIA INVESTMENT POLICY AND EDUCATION CODE SECTION 22362** (Item 12)
Mr. Ailman presented the reviewed the written annual report on Education Code section 22362 and the semi-annual report on the California Investment Policy.

Ms. Solich stated for the record that the Treasurer was pleased with the report and record of good investments being made in underserved areas and progress being made in investing in this class.

BY CONSENSUS, the written annual report on education code section § 22362 and the semi annual report on the California Investment Policy were accepted.

- XIV. **MONTHLY ACTIVITY STATUS REPORTS** (Item 13)
Mr. Ailman presented the written monthly activity status reports for Credit Enhancement, Alternative Investments, and Real Estate in a new format.

BY CONSENSUS, the monthly activity status reports for Credit Enhancement, Alternative Investments, and Real Estate were accepted.

- XV. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 14)
Mr. Ailman presented the written report. Ms. Porini stated concern about the significant drop in assets over the last three years. Mr. Ailman responded that there is still a positive cash flow and the principal is not being used to pay benefits. Mr. Emkin stated for the record that there is no concern regarding meeting liabilities. Mr. Ailman stated that the first presentation of the asset liability study would be presented in November.

- XVI. **DRAFT AGENDA FOR NOVEMBER INVESTMENT COMMITTEE MEETING** (Item 15)
Mr. Ailman stated that the California Investment Policy Report and the Emerging Market Criteria Discussion would be postponed to a future meeting.

- XVII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 16)
There were no statements from the public.

- XVIII. **MOVE TO CLOSED SESSION**
Chairperson Lynes recessed the meeting at 3:00 p.m. and reconvened into closed session.

- XVIII. **ADJOURNMENT**
There being no further business to conduct, Chairperson Lynes adjourned the meeting at 3:30 p.m.

Jack Ehnes, Chief Executive Officer and Secretary to the Teachers' Retirement Board

Gary Lynes, Chairperson